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ABSTRACT

This report reviews the 1998 activities of the Midwestern Higher Education Commission (MHEC), a compact of nine member states. MHEC offers its members various cost-saving services, provides a forum for sharing information on higher education issues, and offers savings to some out-of-state students through a student exchange program. Focusing on Illinois' role within the commission, the report notes that Illinois colleges and universities have used MHEC cost-saving programs such as regional self-insurance risk management and the natural gas and utilities initiative very sparingly. The report notes that while one of the most popular MHEC programs has been the interactive video program, most purchases made through MHEC were made in the early years of the program. The report concludes that while Illinois state colleges and universities probably will not benefit substantially from most MHEC initiatives due to the economies of scale already present in the state system, some small or private institutions might find it advantageous to make purchases through MHEC. It also notes that one of the main benefits of MHEC membership is its role in organizing regional meetings to consider the problems facing higher education. Two appendixes outline the 1998-1999 MHEC budget and provide a list of Illinois members. (MDM)

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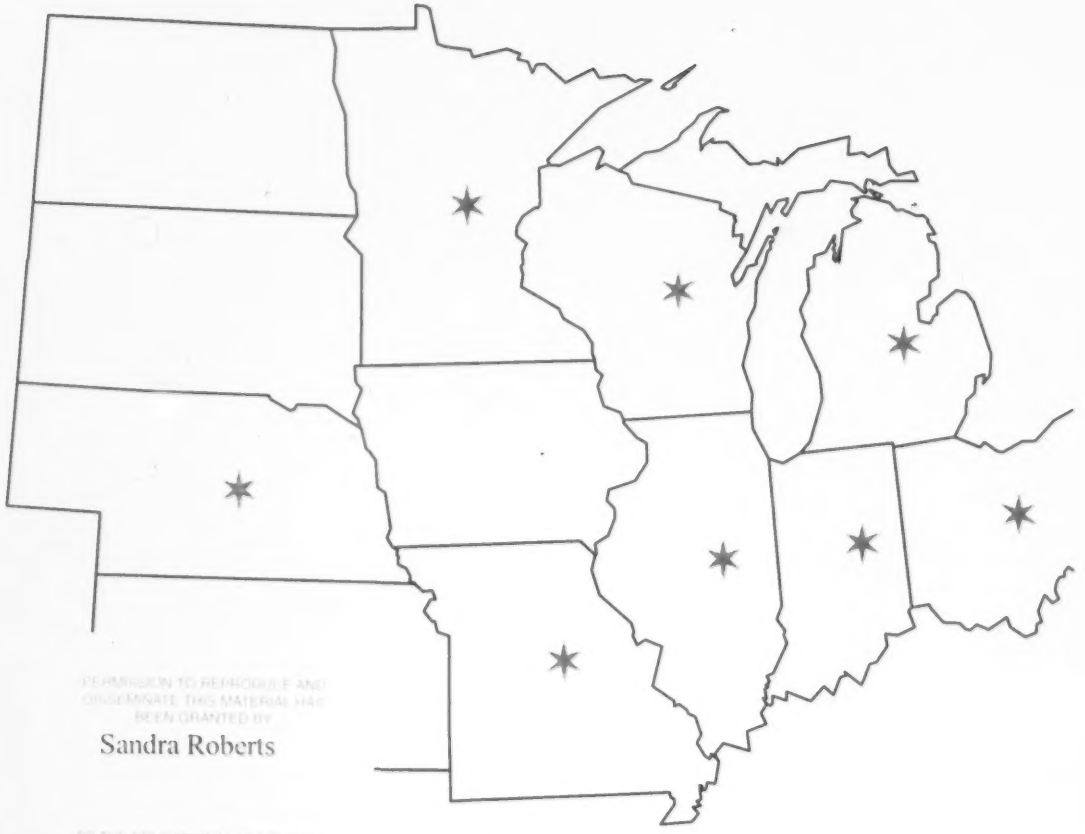
The Midwestern Higher Education Commission

1998 ANNUAL REVIEW



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HE 032 139

Illinois Commission on Intergovernmental Cooperation

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January 29, 1999

To the Honorable Members of the Illinois General Assembly:

The Midwest Higher Education Compact Act (PA 87-147) requires the Commission on Intergovernmental Cooperation to report annually on the compact's performance and to make recommendations on Illinois' continued participation as a member state of the compact. This report is intended to meet that obligation.

Our review would seem to indicate that the main value of MHEC to Illinois higher education is its role in providing a regional forum for analyzing higher education problems. Participation in other MHEC initiatives remains small and seems to benefit mainly small and/or private institutions, although some public colleges have taken advantage of them. MHEC is requesting a dues increase of $17,000 in the next fiscal year. That increase will have to be weighed against the benefits received by the State of Illinois.

Sincerely,

Senator Arthur L. Berman
Co-Chair

Representative Kathleen L. Wojcik
Co-Chair

TABLE OF CONTENTS

EXECUTIVE SUMMARY .....

TRANSMITTAL LETTER 1

BACKGROUND 5

MIDWESTERN HIGHER EDUCATION COMMISSION (MHEC) 5

MHEC PROGRAMS 6

1. Regional Self-Insurance/Risk Management 6
2. Telecommunications - VPN Network 6
3. Interactive Video Program 6
4. Interactive Courseware 7
5. Student Exchanges 8
6. Program Scheduling 8
7. Information Exchange Services 8
8. Natural Gas and Utilities Initiative 9
9. Higher Education Policy Summit 9

ASSESSMENT: MHEC AFTER SEVEN YEARS 10

CONCLUSION 10

APPENDIX A. 1997-1998 MHEC Budget 11

APPENDIX B. Illinois Commissioners of the MHEC 12

EXECUTIVE SUMMARY

The Midwestern Higher Education Commission (MHEC), which has been operational since 1991, is made up of nine member states. They include Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri, Nebraska, Ohio and Wisconsin. The compact is funded by member dues of $58,000 a year; dues are scheduled to increase to $75,000 in the next fiscal year.

MHEC services consist of a number of program initiatives that are intended to 1) save members money on commodities and services through group purchases, 2) provide a forum for sharing information on topics of interest to policymakers and higher education professionals, or 3) offer savings to some out-of-state students through a student exchange program.

The cost-saving programs range from a regional self-insurance program to a natural gas and utilities initiative. To date, Illinois colleges and universities have used these services very sparingly, although it should be pointed out that several of the programs are relatively new.

Among the programs that have been in existence for several years, the interactive video program has been the most popular. However, most purchases made through MHEC were made in the early years of the program. Currently, most Illinois distance learning consortia purchase equipment through the Central Management Services (CMS) master contract or negotiate their own purchases. Only one university in the state has used the risk management program; eleven institutions have used the program scheduling initiative. The twelve public universities have formed a purchasing committee to secure commodities and services at reduced prices. After hearing a presentation by MHEC last fall, members concluded there was no advantage to signing on to any MHEC initiatives at this time.

The telecommunications program, while not new, recently has been reconstituted to include not only educational institutions and state government, but not-for-profit organizations throughout the United States as well. In the past, prices offered through this program have been comparable to those offered through CMS and thus few public institutions have made use of it. The interactive courseware program and the natural gas and utilities initiatives are new and the extent to which they will be used by Illinois institutions remains to be seen.

The student exchange program has been in existence since 1994. At present, only five of the nine MHEC states participate. After four years less than 1 percent of the student population living in the five states participates in the exchange. Most of the participants, over 75 percent, come from Kansas and Nebraska. Illinois does not participate in the student exchange program because, according to the Illinois Board of Higher Education (IBHE), there has been little interest.

In June, MHEC joined with several other organizations to sponsor a policy summit on issues of concern to higher education. Some 110 participants from twelve

states attended and a conference report was issued. Participants from Illinois found it to be a useful meeting and suggested that the meeting illustrates one of the major benefits of belonging to MHEC.

Illinois has a highly developed system of higher education with a budget in excess of $2 billion a year. State colleges and universities will probably not benefit substantially from most of the MHEC initiatives because the state can and does provide significant economies of scale just within the system. Some small and/or private institutions, however, might find it advantageous to make purchases through MHEC. The main benefit of MHEC, however, seems to be its role in providing a forum for regional meetings to consider the problems facing higher education.

BACKGROUND

Higher education compacts first appeared after World War II, a response to expanding college populations and an increase in the demand for trained professionals. Three compacts, the New England Board of Higher Education (NEBHE), the Southern Regional Education Board (SREB), and the Western Interstate Commission for Higher Education (WICHE) appeared between the late 1940s and the mid-1950s.

The original purpose of the compacts was to offer students access to high-cost professional programs not available in their home states. In the years since their inception, interstate compacts have continued to sponsor student exchanges on the undergraduate, graduate and the professional level, but they also provide a number of additional services. These include, among other things, reports on a wide variety of educational issues as well as noneducational issues such as mental health and economic development. The compacts also conduct specialized research, organize conferences, and promote cost-saving strategies for their members.

MIDWESTERN HIGHER EDUCATION COMMISSION (MHEC)

In the late 1980s, escalating costs in higher education prompted a number of Midwestern states to explore the possibility of forming a Midwestern higher education compact. After a year of organizational activity, the Midwestern Higher Education Commission was established in January of 1991 and the compact began operation in October of that year. Original member states included Illinois, Kansas, Michigan, Missouri, Minnesota, Nebraska, and Ohio. Wisconsin and Indiana joined the compact later, and Iowa is considering joining.

The Commission is made up of five resident members from each state: the governor or the governor's designee, two legislators, and two at-large members, at least one of whom comes from the field of higher education. Illinois Commission members include: Jerry D. Blakemore, Illinois Board of Higher Education; Senator Bradley J. Burzynski; Representative Judy Erwin; Keith Sanders, Illinois Board of Higher Education; and Lee Walker, Illinois Community College Board.

Member states pay $58,000 a year in dues. The FY 1998-99 budget provides for expenditures of $690,000, including $326,392 for salaries and fringe benefits, $70,500 for contractual services, $52,700 for office expenses, $98,300 for supplies and services, $116,500 for program expenses, $12,500 for non-recurring and capital expenses, and $13,108 for uncommitted contingencies. Dues are scheduled to increase by $17,000 a year to $75,000 in FY 1999-2000.

MHEC Programs

1. Regional Self-Insurance-Risk Management

In 1994 MHEC established a master property insurance program to provide coverage to participating institutions at reduced prices. In its first enrollment period the program insured $15.9 billion in campus property at 52 institutions or campuses through 21 subscribing members (institutions, systems or associations). According to MHEC, seventy other institutions used the MHEC rates to leverage down their own costs. In July 1997, MHEC implemented a new and enhanced property program model. At present the program enrolls 30 institutions and campuses. MHEC officials estimate a $300,000 saving for member institutions.

Discussion

To date, participation in the regional risk management program has been limited, with only 30 of the some 800 eligible institutions participating. This fact suggests that it may not offer substantial enough benefits to bring in most large public systems. In Illinois, the twelve public universities purchase insurance jointly. According to the group, in MHEC's first contract cycle, the system did use MHEC prices to leverage down their costs. In the second cycle, however, the university system received a very favorable price, while MHEC had a substantial price increase. In their current report, MHEC does not break out a list of participants, but in the past only one Illinois university was participating.

2. Telecommunications—Midwest Telecommunications Alliance

When it began in January 1993, the MHEC telecommunications network offered participants a full range of services at discounted prices. Usage, however, proved to be disappointing. The new alliance, however, negotiated better telecommunication rates with multiple providers and opened participation to not-for-profit institutions throughout the country. Annual volume has grown from $8.9 million to $32.2 million, with estimated savings of $11.5 million.

Discussion

The newly instituted arrangement has resulted in a substantial increase in usage in general and in Illinois. In Illinois, state colleges and universities have the option of signing onto the Central Management Services Network (CMSN), which provides roughly the same services at comparable prices. The new MHEC arrangement makes these beneficial rates available to private colleges and universities and other not-for profit organizations.

3. Interactive Video Program

The Interactive Video Program was established to promote inter-operability and to provide MHEC states with the opportunity to save money on the purchase of

equipment and services. The Interactive Video Program has been one of MHEC's most popular, with members purchasing some $35.4 million in services and equipment in the five years it has been in operation. MHEC estimates savings at $11.3 million.

Discussion

Illinois colleges and universities have been major purchasers of telecommunications equipment through the MHEC plan. From August 1993 to the present, Illinois accounted for $14 million of the total sales. The bulk of those sales were made in the early years of the plan; at present most of the distance learning consortia are either using the master contract negotiated by Central Management Services (CMS) or negotiating their own arrangements. Many of those who have purchased their equipment by other means have expressed appreciation for the standards set by the MHEC Interactive Video Committee. Suggested savings, however, appear to be overstated in that they compare MHEC prices to "retail value." Few, if any, colleges and universities pay retail price. Certainly the public colleges and universities do not.

The IBHE has made a substantial commitment to distance learning. Although the numbers of students enrolled remains relatively small, distance learning is growing in importance across the country as states recognize the need to serve place-bound students who do not have access to traditional college courses. MHEC offers Illinois colleges and universities one more option in making their purchases. This option is most useful to small private universities.

4. Interactive Courseware

Approved in 1996, the interactive courseware initiative is intended to provide a convenient and cost-effective way for members to purchase such software and to encourage its use. After reviewing the literature and visiting commercial providers and institutional users, the committee decided it would be prudent to narrow the scope. They agreed to focus on commercially produced software that consists of self-contained, integrated instructional courses that are geared to areas of high student demand. The committee also established a set of standards that includes desirable features and capabilities. In 1997, the Committee issued a request for information (RFI) to 140 providers. The results were disappointing. Private sector products had serious deficiencies and campus-based products lacked the kind of support that would enable them to continuously monitor and improve their product.

As a result of their findings, the Committee proposed the establishment of a regional not-for-profit Distributed Learning Workshop that would design high quality, computer-mediated, courseware products. This would be done through six initiatives that would provide for the development of standards for such products, their continuous evaluation and distribution.

Discussion

Meeting the needs of nontraditional students is a growing concern of many colleges and universities. Identifying appropriate interactive courseware to serve this population is problematic. A number of colleges and universities are setting up for-profit companies

to develop and sell interactive courseware. MHEC's entry into this area could provide a welcome alternative for Illinois colleges and universities.

5. Student Exchanges

The MHEC student exchange program is intended to expand opportunities for students and to save money for the participating states. The program permits out-of-state students to enroll in selected programs and institutions if space is available. Students participating in the program pay reduced out-of-state tuition. At present, five states—Kansas, Michigan, Minnesota, Missouri, and Nebraska—are participating in the exchange. The program began in the fall of 1994 with 366 students; by the fall of 1998 that number had grown to 1,726 students – a substantial increase, but still less than 1 percent of the 1.4 million students living in the five participating states. Moreover, most of the participating students, nearly 77 percent, reside in Kansas and Nebraska.

Discussion

Illinois thus far has not participated in the student exchange program, in part because there does not appear to be sufficient interest. Illinois has a large and diverse higher education system. It also has an exchange program with bordering states. In addition, many state institutions participate in the National Student Exchange. As a result, the MHEC student exchange is a less critical program area for the state.

6. Program Scheduling

Small colleges (those with fewer than 10,000 students) have had difficulty in purchasing computer assisted scheduling systems that are both appropriate for their needs and affordable. The Academic Course Scheduling Committee drafted a set of guidelines that emphasize unbundled software applications to allow these colleges and universities maximum flexibility. MHEC was able to negotiate contracts with two companies that include these features plus discounts ranging from 55 to 66 percent. Thus far, 92 public and private colleges and universities, 11 from Illinois, have taken advantage of the program.

Discussion

Class scheduling is time-consuming and expensive, particularly for small institutions that have been priced out of the software market. The MHEC program scheduling initiative has the potential for benefiting small colleges in Illinois, several of which have either purchased the software or are considering it.

7. Information Exchange Services

MHEC began its Internet offerings in 1994 in an effort to facilitate communications among telecommunications experts in higher education. Their Web server supports several Internet discussion groups.

Discussion

The MHEC Internet offerings, while reduced from earlier years, provide another option for exchanging ideas and obtaining information about MHEC.

8. Natural Gas and Utilities Initiative

Established in 1996, the natural gas and utilities initiatives set out to: provide comparative information on pricing, make available "boilerplate" acquisition documents for use by institutions, and provide opportunities for cost savings and price stability for participating institutions. A request for information (RFI) resulted in the signing of a master agreement with Enron. Prototype strategies were developed and volunteers in five states, including Illinois, are participating in prototype trials. According to the committee, the early results are promising, but it remains to be seen if a regionally implemented prototype will result in significant financial benefits.

Discussion

It is possible that a regional natural gas purchasing consortium could benefit Illinois colleges and universities. Purchasing agents from several universities have indicated that they will be interested in seeing what is offered. Some have suggested that such arrangements could be problematic unless the states could agree upon specifications. In general, small colleges and universities would probably benefit the most.

9. Higher Education Policy Summit

The Higher Education Policy Summit, held over three days in June 1998, brought together leaders from the legislative and executive branches of state government as well as higher education officials and university presidents and chancellors. The summit goal was to address critical educational issues, and to encourage cooperation and collaboration among the stakeholders within the states as well as the states themselves. The conference was sponsored by the MHEC, the Midwestern Legislative Conference and the Midwestern Governor's Conference of the Council of State Governments. The 110 participants addressed three critical issues: 1) increasing higher education's capacity for change; 2) ensuring affordability; and 3) developing long-term funding and ensuring accountability and stimulation of productivity and efficiency. Some 22 recommendations were set forth and five of the twelve participating states have begun follow-up discussions. A conference report was issued.

Discussion

Those Illinois participants in the Higher Education Summit who could be contacted found it a useful exercise. They praised the quality of the material presented and the level of discussion that followed. They also look forward to follow-up meetings. Many other organizations and publications have considered these issues, but there appears to be some value in bringing together educational leaders and policymakers to discuss them at the regional level.

ASSESSMENT: MHEC AFTER SEVEN YEARS

The purpose in setting up the Midwestern Higher Education Commission was to provide a forum for sharing ideas and establish a basis for creating economies of scale, both in student programs and in a variety of services. The Commission staff has moved actively on both fronts. They have worked to ascertain members' needs and wishes and have initiated a number of programs with varying degrees of success. To some extent they have struggled to find a niche for themselves. To their credit, the MHEC staff has been willing to jettison or reconstitute those programs that are not working well. They have also been active in seeking out new initiatives. Most of the programs designed to promote monetary savings or better use of resources remain relatively small, in part because they are so new, and in part because at least some of them duplicate the activities of other organizations. However, some of their newer initiatives, such as the Interactive Courseware Initiative and the Natural Gas and Utility Initiative may find more receptive audiences.

Perhaps the real strength of the Midwestern Higher Education Commission lies in its ability to provide a forum for interstate discussions of the critical issues facing higher education. The three other higher education compacts have found value in these kinds of meetings and the response to the higher education policy summit suggests that additional meetings would be welcome in the Midwest.

CONCLUSION

Illinois has a highly developed system of higher education with a budget in excess of $2 billion a year. It can provide for, and has provided for, substantial economies of scale just within the system. State colleges and universities will probably not realize substantial financial benefits from the various MHEC initiatives. Nevertheless, they have found the work of some MHEC committees to be extremely useful; namely, those that have set standards for such things as interactive video equipment and interactive courseware. Other institutions including small private colleges and universities and some not-for-profits have found the economies of scale provided by MHEC to be beneficial. The main benefit of MHEC, however, seems to be its role in providing a forum for regional meetings to consider the problems facing higher education as we move into the new millennium.

APPENDIX A

FY 1998-99 MHEC Budget

	1997-1998 Budget (Revised)	1998-1999 Budget Proposal
I. GENERAL FUND REVENUE		
A. Prior Year Carry Forward	$87,800	$67,000
B. Membership Dues ($58,000 ea. state)	522,000	522,000
C. Gifts and Grants	0	0
D. Interest Income	12,878	13,000
E. Other Miscellaneous Income	74,000	88,000
GENERAL FUND REVENUE TOTALS	**$696,678**	**$690,000**

	1997-1998 Budget	1998-1999 Budget
II. GENERAL FUND EXPENDITURES		
A. Salaries and Benefits		
1. Salaries		
a. President	$110,250	$110,250
b. Executive Assistant	46,150	46,150
c. Program Officer (.75 fte)	25,500	25,500
d. Program Coordinator	30,478	0
e. Program Officer	0	34,000
f. Communications & Information Officer	0	30,000
g. Secretarial Assistants	25,800	0
2. Benefits	50,615	58,492
3. Compensation Contingency	4,885	22,000
Salaries and Benefits Subtotal	**$293,678**	**$326,392**
B. Contractual Services		
1. Legal Fees	$8,000	$8,000
2. Audit Fees and Expenses	5,000	4,500
3. Senior Advisor Fees	27,000	20,000
4. Other Contract Services	43,000	38,000
Contract Services Subtotal	**$83,000**	**$70,500**
C. Office Expenses		
1. Space Lease	$31,200	$31,200
2. Business Services	10,500	10,500
3. Auto Lease and Employee Parking	12,000	11,000
Office Expenses Subtotal	**$53,700**	**$52,700**

D. Supplies Materials and Services		
1. Office Supplies	$4,000	$4,000
2. Postage	6,500	6,500
3. Printing	11,000	11,000
4. Subscriptions	500	500
5. Computer Software/Supplies	500	500
6. Computer Services	1,000	600
7. Maintenance Contracts/Leases/Eq. Rental	3,500	2,600
8. Telephone/Fax/Teleconferences	17,500	14,000
9. Publications	500	500
10. Insurance	5,300	5,600
11. Memberships	2,500	2,500
12. Miscellaneous Expenses	3,000	3,000
13. Travel, Meetings, Conferences	47,000	47,000
Supplies, Materials & Services Subtotal	**$102,800**	**$98,300**
E. Program Activities		
1. State Meetings	$0	$0
2. Commission Meetings	$38,000	$38,000
3. Midwest Student Exchange Program	6,500	8,000
4 Telecommunications Program	8,000	10,000
5. Risk Management Program	15,000	15,000
6. Natural Gas Project	10,000	14,000
7. Academic/Graduate Position Network	2,000	0
8. Academic Course Scheduling Program	3,000	1,000
9. Higher Education Policy Forum	20,000	2,000
10. Regional Purchasing Initiative	2,000	1,000
11. Interactive Courseware Initiative	10,000	10,000
12. Computing Resources Initiative	8,000	10,000
13. Internet Services	500	500
14. Proposal Research	2,000	2,000
18. Program Contingencies	5,000	5,000
Program Activities Subtotal	**$130,000**	**$116,500**
F. Non-recurring and Capital Expenses	$12,500	$12,500
GENERAL FUND EXPENDITURES SUBTOTALS	**$675,678**	**$676,892**
G. Uncommitted Contingency Subtotal	$21,000	$13,108
GRAND TOTAL GENERAL FUND BUDGET	**$696,678**	**$690,000**

APPENDIX B

Illinois Commissioners

Midwestern Higher Education Commission

Honorable Bradley J. Burzynski
Illinois State Senator

Honorable Judy Erwin
Illinois State Representative

Keith Sanders
Executive Director
Illinois Board of Higher Education

Lee Walker
Member
Illinois Community College Board

Jerry D. Blakemore
Chief Executive Officer
Illinois Sports Facilities Authority
Chairman
Illinois Board of Higher Education